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AGRICULTURAL FINANCE Outlook

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In analyzing the current situation and outlook, the authors extensively utilized information solicited from the district Farm Credit Banks, the State offices of the Farmers Home Administration, the agricultural economists of the Federal Reserve System, the Agricultural Committee of the American Bankers Association, the Independent Bankers Association, the farm mortgage departments of several life insurance companies in various parts of the United States, the field staff of the Farm Production Economics Division, and others. These reporters are well qualified to cite pertinent information of the financial condition and prospects of farmers across the Nation. Most of the reports from these correspondents were written in November and December 1972. Therefore, correspondents did not have knowledge of recent changes in Government farm programs and other late developments which may have a bearing on farmers' financial situations in 1973. The authors and readers of this publication are indebted to these cooperators for their contributions.

AGRICULTURAL FINANCE OUTLOOK

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Principal contributors:
Carson D. Evans
Forest G. Warren
Lawrence A. Jones

Farm Production Economics Divison

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U.S. Department of Agriculture
Washington, D.C. 20250

SUMMARY

Financial conditions for most farmers in 1973 will continue to reflect the improvement achieved in 1972. Use of farm loans will expand. Short-term interest rates may rise by half a percentage point during the year, and long-term rates may go up less.

Gross farm income is expected to reach a new record despite lower direct Government payments to farmers. Farm production expenses will rise further from the high rates of 1972. Realized net farm income will probably trail 1972's record high of just over $19 billion, but exceed any other year.

Farm asset values will rise, with real estate values providing the biggest boost. The farm debt-to-asset ratio will probably resume its upward trend (reversed in 1972 for the first time since 1957) as debts increase at a faster rate than assets.

The increase in farm loans will stem mainly from farmers' larger investments in land, machinery and equipment and in various other capital improvements. Larger loan volume will also reflect increased production costs, including costs of farming additional acreages which will likely be put into production due to changes in the farm programs. Additionally, farmers who plan to pay off CCC loans by May 31 on grains stored on farms under the program will likely need financing, even if only for a short time. Feeder cattle and hog replacements will be high priced, at least early in the year, although livestock feed prices may drop during the year. Last year's record net farm incomes will temper borrowing needs as some farmers use more of their own money for farming purposes instead of borrowing. Prepayment of debts was at a higher than usual rate in 1972 and may continue in 1973 dependent on farmers' income expectations later in the year.

Lenders are confident ample funds will be avilable to service farmer's credit needs. Deposits in commercial banks are up in all but a few areas which were hurt by 1972 weather disasters and unfavorable harvesting conditions. The Federal land banks and production credit associations do not anticipate any problems in obtaining needed loans funds through sales of bonds and debentures, although interest costs of both may be slightly higher than in most of 1972. Life insurance companies expect to have

enough funds to take care of demands despite some concern that policy loans may increase enough to have some slight effect on the amount available for farm, and other types of loans. Merchants and dealers will continue to finance farmers purchases, especially of machinery, equipment, fertilizer, fuel and feed. The Farmers Home Administration will phase out its direct loan programs as it goes entirely into guaranteeing and insuring farm loans. The agency's participation in total farm lending should increase under those programs.

Equities of farm proprietors increased a record $26.3 billion in 1972, due mainly to a gain of $22.8 billion in farm real estate value which reflected a rise of one-tenth in per acre values. The gain in total asset value exceeded the rise in total debt—9.2 percent compared with 7.6 percent—and dropped the debt-to-asset ratio to 19.4 percent from 19.7 percent a year earlier. Farm mortgage debt outstanding showed a more rapid increase in 1972 than in the last several years while short- and intermediate-term loans posted a slower rise than in 1971.

OUTLOOK FOR 1973

The financial condition of most farmers is noticeably better than a year earlier, and prospects favor continuation of the improved level. Although total realized net farm income may dip from the peak of last year, the comparison with all pre-1972 years will be favorable. Demand for farm loans will increase by about the same rate as in 1972. Loan funds of lenders will be ample, and interest rates are not expected to move far from present levels.

The state of the general economy and monetary and fiscal policies will, of course, be the prime influence on the cost of borrowed money, including farm loans. However, any increases in interest rates on farm loans may be held to around half a percentage point for short- and intermediate-term loans and even less for long-term loans.

Funds for the increased demand for farm loans will be available from most lenders. The Federal land banks, life insurance companies, commercial banks, and other long-term lenders express no concern over supplies of loan funds. Commercial banks, PCA's, and other short- and intermediate-term lenders expect no difficulty in meeting demands of qualified borrowers. Exceptions will be some banks which may have to share loans with other banks where a loan request exceeds the size of a bank's lending limit, and FHA which never has sufficient funds to meet demands for its subsidized loans.

Repayment experence on loans in 1973 should be about the same as in 1972. Borrowers having difficulty in meeting obligations will mainly be those in localities hit by a disaster or emergency of some sort and those who have overextended themselves on loans. Lenders reporting in late 1972 uniformly stated that even with the fairly easy credit situation, the repayment ability of the borrower was of primary consideration in appraising loan requests.

Total interest charges on farm loans will show a marked increase over 1972. Farmers' loans will create interest charges of approximately $4.5 billion, an increase of $0.4 billion or 9 percent. Interest charges in 1972, rose 7 percent. The increase for 1973 will be due mainly to increased credit use, since the expected increase in interest rates during the year will be small.

Several factors support the prospect of increased demand for farm loans in 1973. Expectations of continued relatively high incomes will encourage investment in machinery and capital improvements, including buying land for farm enlargement. Expansions of crop acreages that result from Government program changes will require additional credit use. Operating costs will likely continue on a rising trend. Even if farm operators use a larger than usual amount of their own funds for farm expenses, as some corespondents indicate may happen, they will still have to borrow additional sums. Although interest rates of 7½ to 8½ percent are above what are traditionally thought of as typical farm loan rates, they are lower than several years earlier, and many farmers have evidently come to accept them as a fact of life to be reckoned with for the foreseeable future. Therefore, some farmers who delayed borrowing for some purposes the last few years because of interest rates will be in the loan market this year. Machinery purchases are expected to continue at a brisk rate. The plentiful supply of loans funds indicated by reporting lenders will facilitate farmland purchases through traditional sources.

The easier availability of long-term loans, together with high income, will be important in pushing farmland prices higher in 1973. As tracts become available, the relatively easy access to loans will allow potential buyers to bid up prices. The influence of farmland bought at high prices for nonfarm speculative or development purposes will become even more evident on farmland sales and prices around developing centers. Later in the year as towns involved with projects coming under the Rural Development Act of 1972 start feeling the effect, additional farming areas will be influenced also.

Net income per farm from farming in 1973, as in 1972, will reflect the declining number of farms.

Many operators will take off-farm employment to supplement farm income or sell out and move entirely to nonfarm employment.

Changes in crop programs will affect lending and farm income. Demand for operating credit will rise as crop acreages expand. Production of soybeans, grain sorghum, and wheat probably will increase. But effects on their prices remain to be seen.

FINANCIAL DEVELOPMENTS IN 1972

The most significant development during 1972 was the accelerating economic recovery. Consumer buying as measured by expenditures for personal consumption reached an annual rate of $729 billion in the third quarter, 9 percent over a year earlier. This increase was reflected in production gains and a strong demand for labor. In the first 11 months of the year the total employment increased 2.5 million. The number of unemployed decreased about half a million.

The economic recovery, along with blossoming export demand and some harvest-time weather delays, had major impact on prices received and paid by farmers. Prices received by farmers in 1972 advanced to 126 percent of the 1967 average, up from 112 percent a year earlier. Price increases for meat animals, tobacco, fresh fruits and vegetables, and potatoes were significant. In November and December prices for corn, wheat, and soybeans increased significantly. The 1972 average index of prices paid by farmers was 127 (1967 = 100) compared with 120 a year earlier.

In the first half of 1972 increased economic activity was coupled with an expansionary monetary policy. The money supply rose. Interest rates in general were fairly stable. However, in mid-1972, the Federal Reserve System began tightening credit, and short-term interest rates rose slightly.

The Rural Development Act of 1972 provides for rural development programs which can have significant influence on commercial enterprises and employment in rural areas. The law authorizes the Farmers Home Administration to guarantee and make insured loans for commercial, industrial, and community development. Previously, FHA was limited to farm loans, housing loans, and water and sewer loans. FHA can now make loans in nonfarm categories to stimulate the creation of jobs in rural areas in which farmers rely heavily on off-farm income. It provides the financial nucleus whereby new rural industries can be established.

During 1972 the value of farm assets rose 9.2 percent ($31.4 billion) compared with 7.7 percent ($24.3 billion) in the preceding year (table 1 and fig. 1).

Values of all farm asset categories rose during the year. Farm real estate assets rose $22.8 billion and nonreal estate assets $7.4 billion. Financial assets included in the balance sheet rose a total of $1.2 billion. Farm real estate is the most significant asset in the balance sheet of the farming sector. The January 1, 1973, estimated value of all farm real estate, $251.4 billion, was two-thirds of all farm assets.

Farm real estate values per acre increased 10 percent in the year ended November 1, 1972 (table 2 & fig. 2). This sharp increase reflects 2 years of highly favorable farm income, readily available credit, a slight downturn in the quantity of land offered for sale, and continuing strong nonfarm demand. Regionally, the largest value per acre increase (16 percent) occurred in the Southeast, followed by the Appalachian region at 14 percent. The Pacific region lagged far behind other areas with an average increase of only 4 percent. The U.S. increase for the previous year was 5 percent and for 1970 only 3 percent.

Reporters in the survey of real estate values said that more people in most areas of the country were looking for farms and that fewer farms were being offered for sale. Nevertheless, the number of farms sold had not changed greatly from 6 months earlier.

Crop inventories at the end of 1972 were up about 25 percent, or $3.2 billion, from a year earlier. This was due in part to a larger volume of farm inventories but mainly to higher grain prices. The December 15, 1972, average prices received by farmers for 4 basic farm crops normally stored by farmers compared with the December 1971 prices were—corn $1.42 per bushel ($1.08), soybeans $3.95 per bushel ($2.93), wheat $2.38 per bushel ($1.34), and hay $33.00 per ton ($26.10).

Livestock assets increased only 6 percent ($1.7 billion) compared with a 15.5 percent increase in 1971. The increases each year reflected both price and inventory advances. Livestock prices were at record levels at the end of 1972.

Miscellaneous farm assets, currency, bank deposits, savings bonds, and investments in co-ops increased 2 to 8 percent during the year. There was little change in the distribution of these assets.

As 1973 began, farm liabilities including CCC loans totaled $72.0 billion, an increase of 7.6 percent over a year earlier. The 1971 increase was 9.4 percent.

The debt-to-asset ratio was 19.4 percent compared with 19.7 percent a year earlier. The ratio had increased yearly, except for a slight drop in 1957, for the last 25 years—from 7.2 percent in 1947. The recent decline was brought about largely by a smaller percentage increase in liabilities than for the previous year and because of the large rise in farmland values. The smaller rate of debt increase is a reflection of the record 1972 farm incomes.

Table 1.—Balance sheet of the farming sector selected years, January 1, 1960-73
(48 States)

Item	1960	1965	1970	1972	1973[1]	Net change	
						1972	1973
	Billion dollars	*Billion dollars*	*Billion dollars*	*Billion dollars*	*Billion dollars*	*Billion dollars*	*Percent*[2]
ASSETS							
Physical assets:							
Real estate[3]	130.2	160.9	208.2	228.6	251.4	22.8	10.0
Non-real estate	54.7	57.8	78.1	85.8	93.2	7.4	8.5
Financial assets	18.2	19.8	23.3	24.8	26.0	1.2	4.8
Total	203.1	238.5	309.6	339.2	370.6	31.4	9.2
CLAIMS							
Liabilities:							
Real estate debt	12.1	18.9	28.4	31.3	33.9	2.6	8.1
Non-real estate debt to:							
Reporting and nonreporting creditors	11.5	17.1	27.0	33.3	36.2	2.9	8.8
Commodity Credit Corporation	1.2	1.5	2.7	2.3	1.9	-.4	-16.3
Total	24.8	37.5	58.1	66.9	72.0	5.1	7.6
Proprietors' equities	178.3	201.0	251.5	272.3	298.6	26.3	9.6
				Percent			
Debt-to-asset ratio[2]	12.2	15.8	19.0	19.7	19.4	---	---

[1] Preliminary. [2] Computed from unrounded data. [3] Real estate values are as of March 1.

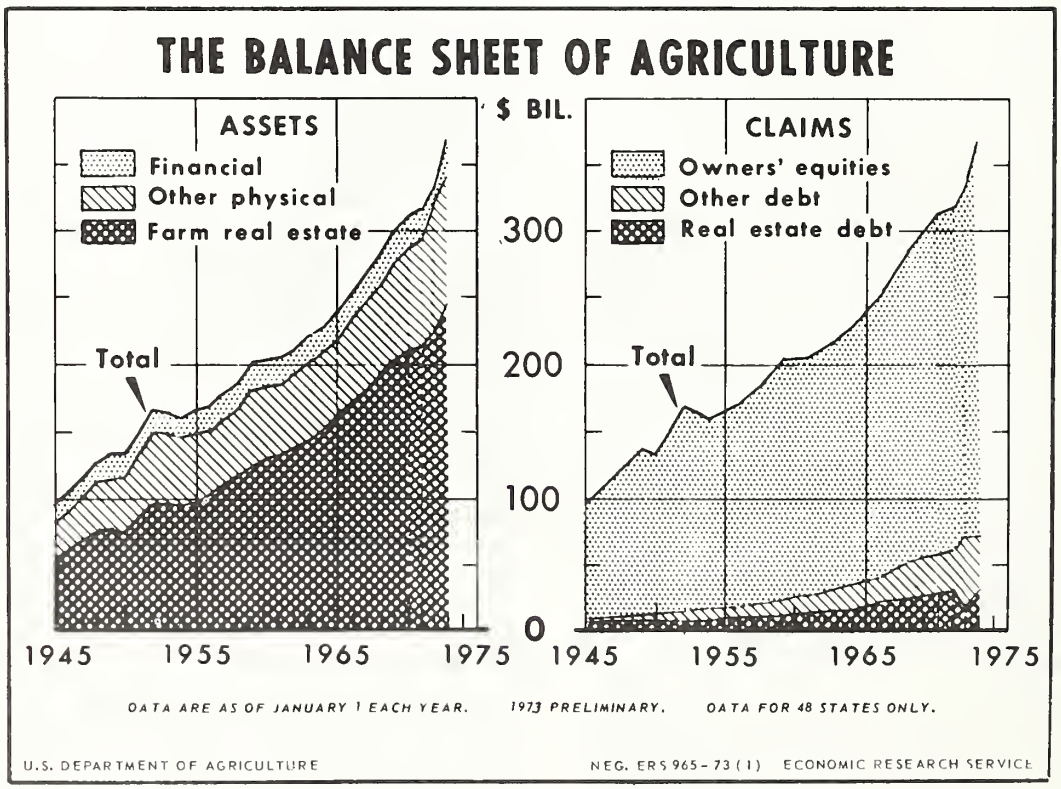


Figure 1

Table 2.—Change in farm real estate values per acre by regions, selected periods, 1970-72
(48 States)

Region	Change during year ending November 1			Change from March to November in year specified		
	1970	1971	1972	1970	1971	1972
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
Northeast	9	9	9	4	6	6
Lake States	4	5	12	3	3	8
Corn Belt	2	4	12	0	2	7
Northern Plains	1	2	12	-1	1	7
Appalachian	7	5	14	4	2	8
Southeast	8	8	16	4	3	9
Delta	5	6	9	2	4	7
Southern Plains	3	8	9	2	6	4
Mountain	4	4	9	1	4	5
Pacific	-2	6	4	-2	5	3
48 States	3	5	10	1	3	6

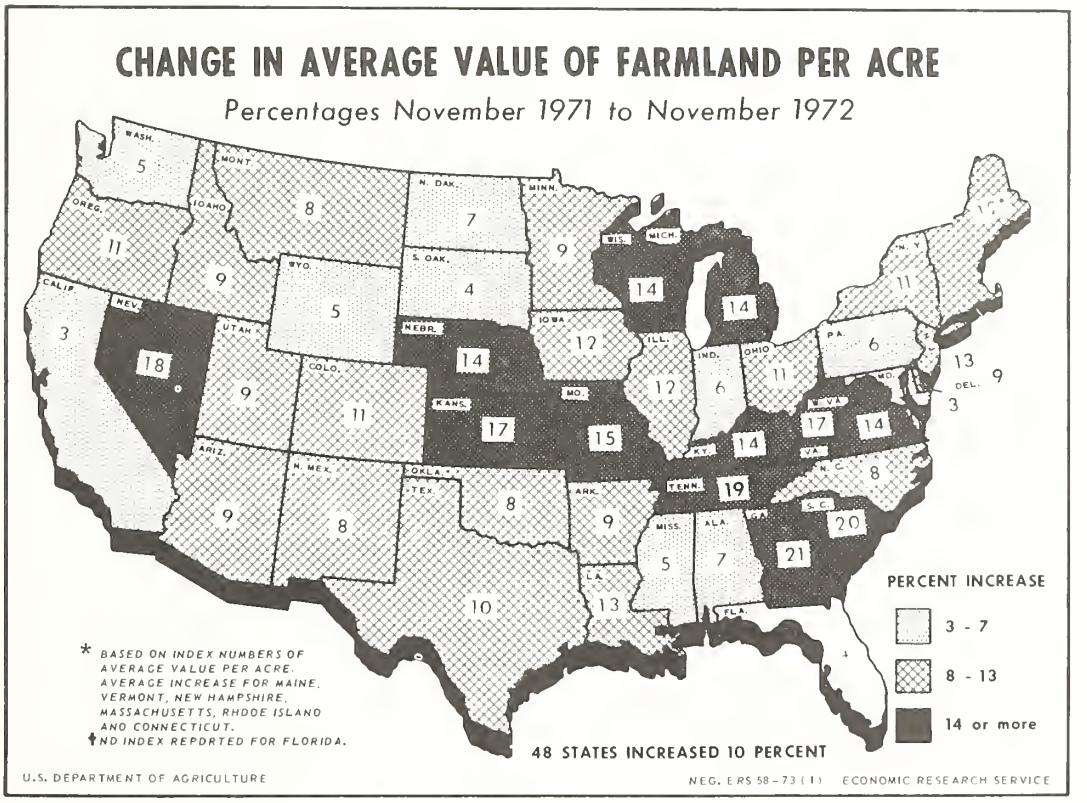


Figure 2

FARM INCOME AND EXPENDITURES

Outlook for 1973

Farm marketing receipts are expected to increase in 1973. This will result in a record gross income to farmers, despite a reduction in direct Government payments. Prices should remain firm. Increases in consumer income point to continued strong demand, especially for meat. Prices of livestock are expected to remain strong, but may ease some in the fall. Livestock feeders will feel the impact of high prices paid earlier for feeders. Purchased feed prices will be high. Profit margins for many livestock producers may become more of a problem later this year.

Farm expenses began a very sharp rise in late 1972 and for 1973 are expected to rise at least as much as the $3.2 billion increase for 1972. Realized net farm income probably will trail the record $19.2 billion of 1972, but should still exceed any other year.

1972 Income Situation

Realized net farm income for 1972 was $19.2 billion, a record high and over $3 billion more than in 1971. Income increased considerably in the second half of 1972. Realized net farm income per farm excluding inventory change was $6,797 in 1972 compared with $5,581 for 1971.

Cash receipts from livestock and livestock products jumped to $34.3 billion from $30.5 billion. Crop receipts rose $1.6 billion to $24.2 billion. Government payments were up $1.0 billion. Realized gross farm income totaled $66.4 billion.

The unusually large increase in farm income resulted from several factors. Demand for livestock products, especially meat, was strong in 1972 and prices to livestock producers were record high. Total crop receipts rose 7 percent aided by record crop output and especially favorable prices for soybeans, wheat, and corn. The jump in export demand had a strong impact on grain prices after midsummer.

Farm production expenses increased about $3.2 billion to a total of $47.2 billion. Feeder livestock prices rose 18 percent, the sharpest increase of all expenses. Costs of purchasing and operating motor vehicles and farm machinery also rose. Feed costs in late 1972 were sharply higher, reflecting the dramatic rise in grain and meal prices.

Nonfarm income of the farm population in 1972 increased substantially from $13.9 billion in 1971 to a new high of $15.5 billion as the economy expanded. On a per person basis, farm people averaged $1,636 in 1972 from nonfarm sources, about 47 percent of the total personal income of farm people from all sources.

FARM DEBT

Outlook for 1973

Farm loan demand in 1973 will exceed 1972. Repayments during the year will probably equal if not exceed those in 1972. However, loan funds required to finance new real estate purchases, at projected increased land values, and the indicated increase in costs of farm production inputs will result in new loans in excess of repayments on existing loans. Farm debt for 1973 may rise 8.2 percent to $75.8 billion compared with a 1972 increase of 8.5 percent (table 3 and fig. 3).

Adequate funds will be available to meet the increased farm loan demand, according to reporters. They saw no real shortage developing for operating or mortgage money. Interest rates for long-term loans probably will not vary much for 1972 levels. Some correspondents believed there would be upward pressure on short-term rates.

The financing of rural development programs in 1973 will be facilitated by the Rural Development Act of 1972 which authorizes the Farmers Home Administration to guarantee and make insured loans for commercial, industrial, and community development. Correspondents do not consider that potential loan demands for these programs will seriously reduce the availability of loan funds for the farm sector.

Developments in 1972

Money was generally available to satisfy the demand for loan funds for the farm sector. Correspondents indicated there were some repayment problems in areas affected by unusual weather such as the storm, Agnes, in the East. In addition, the unfavorable fall harvest reduced cash flow to many farmers. To provide some relief, many countries were declared disaster areas, which made farmers in these counties eligible for low-cost FHA emergency loans.

Total farm debt excluding CCC loans rose to $70.1 billion as of January 1, 1973—an increase of $5.5 billion, slightly exceeding the previous year's rise (table 3 and figure 4).

Traditionally the debt of the farm sector has been about evenly divided between farm real estate debt and non-real estate debt. Since the tight money period of 1969 and 1970 the short-term portion has increased. However, in 1972 the 8.8 percent increase in non-real estate debt was less than during 1971, while real estate debt increased slightly more than in 1971. Non-real estate debt continued to amount to over half of total debt.

Table 3.—Farm debt outstanding January 1, and annual change, 1960-74[1]
(48 States)

Year	Debt outstanding January 1			Change in debt during year					
				Dollar change			Percentage change[2]		
	Total	Real estate	Non-real estate	Total	Real estate	Non-real estate	Total	Real estate	Non-real estate
	Billion dollars	*Billion dollars*	*Billion dollars*	*Billion dollars*	*Billion dollars*	*Billion dollars*	*Percent*	*Percent*	*Percent*
1960	23.6	12.1	11.5	1.2	0.7	0.5	5.0	6.1	3.8
1961	24.8	12.8	12.0	2.0	1.1	.9	8.2	8.4	7.9
1962	26.8	13.9	12.9	2.9	1.3	1.6	10.7	9.1	12.3
1963	29.7	15.2	14.5	3.3	1.6	1.7	11.2	10.8	11.7
1964	33.0	16.8	16.2	3.0	2.1	.9	9.2	12.4	5.8
1965	36.0	18.9	17.1	4.1	2.3	1.8	11.5	12.1	10.8
1966	40.2	21.2	19.0	4.3	2.1	2.2	10.9	10.0	12.0
1967	44.5	23.3	21.2	4.5	2.2	2.3	10.0	9.4	10.6
1968	49.0	25.5	23.5	2.9	1.6	1.3	6.1	6.5	5.7
1969	51.9	27.1	24.8	3.5	1.3	2.2	6.7	4.7	8.8
1970	55.4	28.4	27.0	3.8	1.1	2.7	6.9	3.9	10.0
1971	59.2	29.5	29.7	5.4	1.8	3.6	9.0	6.2	11.9
1972	64.6	31.3	33.3	5.5	2.6	2.9	8.5	8.1	8.8
1973[3]	70.1	33.9	36.2	5.7	2.4	3.3	8.2	7.2	9.1
1974[4]	75.8	36.3	39.5	---	---	---	---	---	---

[1]Excludes Commodity Credit Corporation loans. [2]Computed from unrounded data. [3]Preliminary estimates. [4]Projected.

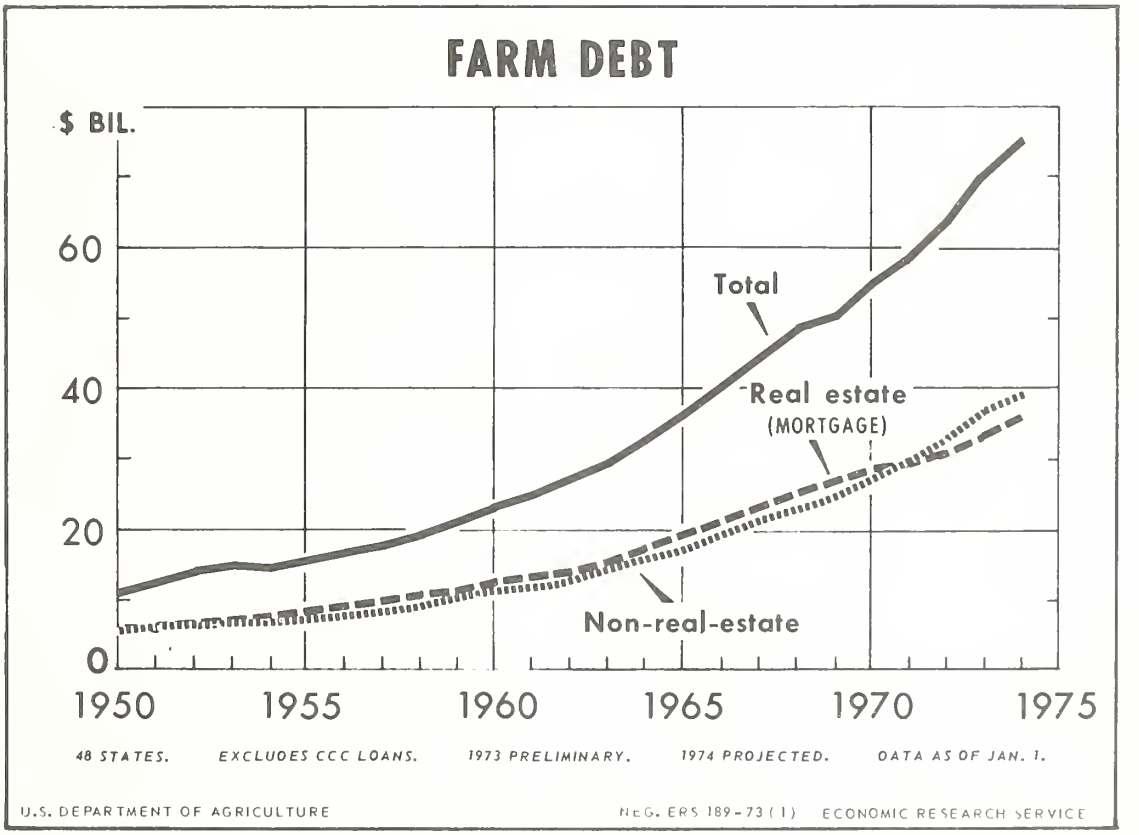


Figure 3

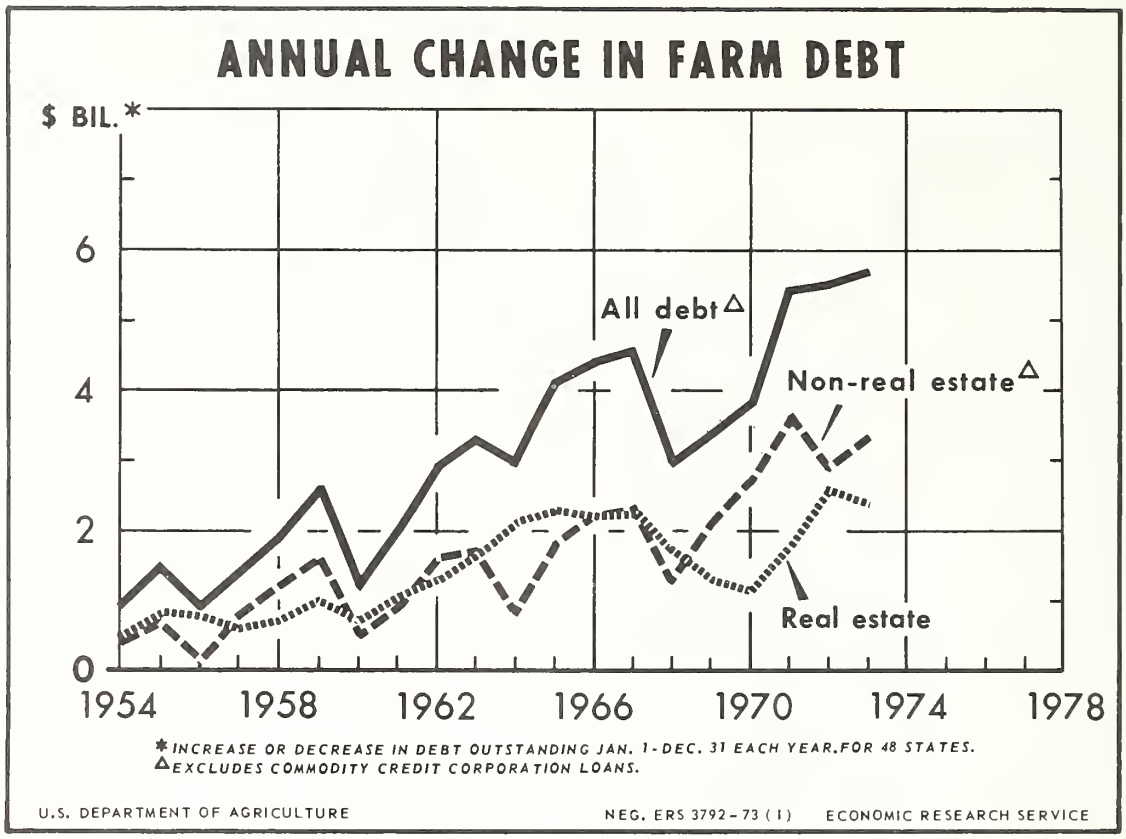


Figure 4

FARM MORTGAGE DEBT

Outlook for 1973

Volume of farm mortgage loans made in 1973 will exceed the 1972 volume, according to reporters. Based on these opinions and current reports of lenders, the outstanding farm mortgage loans may increase about 7 percent to $36.3 billion. This increased demand will come mainly from farmers who acquire more land to expand existing operations and from other investors who, according to reporters, want to hedge against inflation. There were also reports of farmers in some areas consolidating short-term debts into longer terms.

To counter inflationary pressures the Federal Reserve System beginning in mid-1972 apparently tightened monetary policy. This may have a tightening effect on available mortgage funds. Some correspondents, including lenders, indicated that this might result in a slight upward trend in interest rates. However, none of the coorespondents believe there will be any shortage of funds for farm mortgage loans. There was some indication that lenders will acquire more collateral for mortgage loans in those areas which have a large percentage of part-time farmers.

With the record 1972 farm income and expectations for 1973 net farm income near the 1972 level, reporters see no problem regarding ability of the farm sector to handle the debt load.

Developments in 1972

Lower interest rates during 1972 and high net farm income supported a strong demand for farm mortgage loans throughout the year. During the first half of 1972, farm mortgages recorded by all lenders increased a third over the first half of 1971 (figure 5). The strong demand for mortgage loans was apparent in all farm production regions. The largest increase in new loans, 52 percent, was in the Pacific region and the lowest, 19 percent, in the Delta. All lenders except production credit associations participated significantly in this increased volume of new farm mortgage loans. Compared with the first half of 1971,

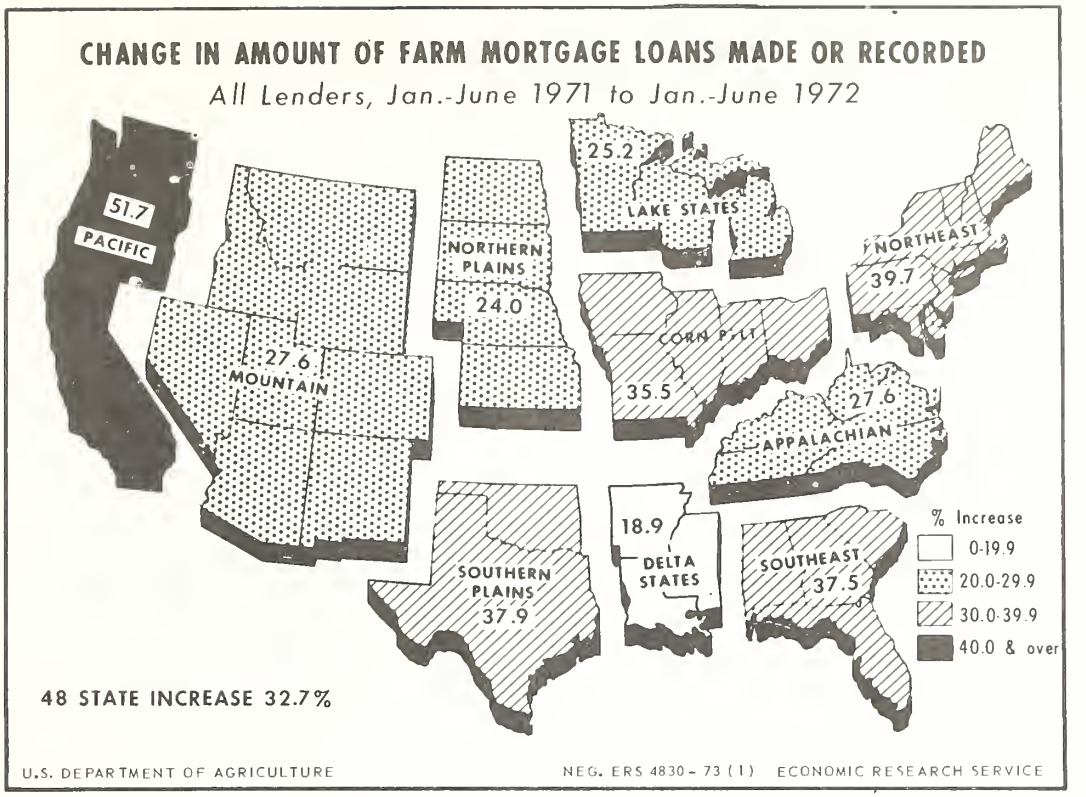


Figure 5

the 1972 percentage increase for the same period by lender was as follows:

	Percent
Federal land banks	26.2
Life insurance companies	75.8
Commercial banks	35.5
Farmers Home Administration	21.4
Production credit associations	1.8
Savings and loan associations	53.7
Individuals	53.8
Miscellaneous	45.1

Data on volume of loans for the last half of 1972 are not available for all lenders. However, based on data from Federal land banks and life insurance companies, the volume of farm mortgages made during the last half rose substantially from a year earlier.

Farm mortgage interest rates were generally lower during 1972. For the first half of 1972 the weighted average interest rate on loans extended by life insurance companies was 8.3 percent compared with 8.6 percent a year earlier and 9.3 percent 2 years earlier. There was a comparable drop in rates charged by Federal land banks. As of July 1, 1972, the rates charged by individual land banks ranged from 7.00 to 7.75 percent. Two years earlier the rate ranged from 8.5 to 9.0 percent. There was a slight drop in rates during the third quarter of 1972 by both of these major lenders.

As measured by data from the Federal land banks and life insurance companies, outstanding farm mortgage loans remain in good health. As of June 30, 1972, the number of delinquent loans was less than a year earlier. For life insurance companies, the number was 17 percent less and for Federal land banks, 9 percent less. The value of loans foreclosed continued to be insignifcant.

According to correspondents, there was an increase in the number of delinquent mortgage loans at the close of 1972 in areas affected by the unfavorable fall harvest and storm damages in the Northeast. Emergency loans of the Farmers Home Administration provided relief to many farmers in these areas.

NON-REAL ESTATE DEBT

Outlook for 1973

Use of non-real estate farm loans will be of record proportions in 1973. The increase in loans outstanding will probably be close to last year's 9-percent rise. The estimated increase of $3.3 billion

will exceed that of 1972 but will not match the record 1971 dollar increase.

Much of the $39.5 billion estimated to be outstanding at the beginning of 1974 is expected to be in loans financing the purchase of farm machinery—probably a greater portion than any time previously.

Nationwide, repayments on loans in 1972 were good and delinquencies and foreclosures lower than usual. So the debt carryover into 1973 was lower than it otherwise might have been. Expectations of another good farm income year will likely cause farmers less than their usual concern about going into debt for machinery and minor capital improvements. On the other hand, another year of relatively high farm income could dampen the demand for operating loans as the year progresses, and this could limit the total amount of credit used.

Farmers expect costs to rise, according to reporters, but hopefully higher costs will not exceed, by much, the increases in cash receipts. Much of the machinery purchased, whether new or used, will be of larger capacity than that replaced and will carry correspondingly higher price tags. Purchases of grain storage and drying equipment will continue. Additional crop acreages planted as a result of changes in Government programs will require financing. New cattle feedlot facilities will require additional loans. Livestock replacements will likely remain costly. Most reporters felt that available labor would be more expensive and thought farm operators were shifting as fast as possible to machinery as a labor substitute. They cautioned that undoubtedly some operators may move too fast in that direction and end up in unsatisfactory financial condition.

Loans from the usual sources will be available in ample supply, according to reporting lenders. They maintain, however, that the credit worthiness of the borrower will still be an important factor in lending. Even in such a period of relatively easy money, farmers with unproven repayment ability will still have difficulty borrowing. In areas hard hit last year by weather or other disasters, loan carryovers may be heavy enough to cause some inconveniences both to lenders and borrowers.

Interest rates will likely be close to those charged in 1972. They vary rather widely, but most in 1972 were in the 7 to 8 percent range. Pressures could develop during the year to raise rates, but any upward movement is expected to be half a percentage point or less.

Developments in 1972

Farmers began 1972 with a record amount of non-real estate debt outstanding and by the end of the year had increased it an estimated 9 percent (table 1 and fig. 6). The rise brought the January 1, 1973, total to $36.2 billion (excluding CCC loans). Non-real estate debt held by institutional lenders in June 1972 was 9.7 percent over a year earlier (fig. 7). Adding CCC loans pushed the estimated total non-real estate loans outstanding January 1, 1973, to $38.1 billion—half again as much as 5 years earlier and 2¼ times more than 10 years earlier.

Commodity loans held by CCC were lower at the beginning of 1973 than a year earlier and were at about the 1971 level. The decrease from 1972 was due to improved prices for crops eligible for loans, causing producers to sell in the marketplace rather than hold under CCC loans. Notable for decreases from a year earlier in CCC loans for crops stored off farms were: wheat down two-thirds, soybeans down one-half, and grain sorghum down one-third. Corn loans were practically the same as a year earlier.

Interest rates on short- and intermediate-term loans in 1972 were close to those charged in 1971 with a slight downward trend reported in some areas. Banks loans ranged mostly from 7¼ to 7¾ percent and PCA loans from 7 to 7½ percent.

Total interest charges on farm non-real estate debt in 1972 were estimated to be $2.2 billion, $0.2 billion above 1971. The increase was primarily due to the higher average debt outstanding in 1972 since interest rates were similar to those charged in 1971.

Reporters consistently stated loan repayments were good with fewer than the usual number of delinquent loans. In some areas, particularly in the Corn Belt, unfavorable harvesting weather caused heavier than usual loan carryover. Several lenders stated that some farmers seemed to use increased farm income to reduce their debts rather than build up cash reserves.

Most farmers found loans available in adequate amounts for justifiable purposes. Machinery sales were up substantially from the last several years and accounted for much of the increase in credit use. Livestock replacements were high priced, requiring increased livestock loans. The continuing increase in general operating expenses was another basis for the rising trend in non-real estate farm credit.

A use for short- and intermediate-term farm loans that may not be receiving adequate attention from analysts is the use of loans in raising and maintaining the level of living of farm families. In response to the question of whether there were noticeable changes in the level of spending by farm families for living purposes, most reporters mentioned that farm families generally were improving their level of living and that spending for that purpose closely paralleled spending patterns of urban families. Too, some reported that spending for family living no longer followed as closely as it used to the ups and downs of farm income, but in recent years seemed to be more on a constantly rising trend. The prevalence of regular off-farm income in many areas is one basis for the spending patterns no longer being tied just to farm income. One lender observed,

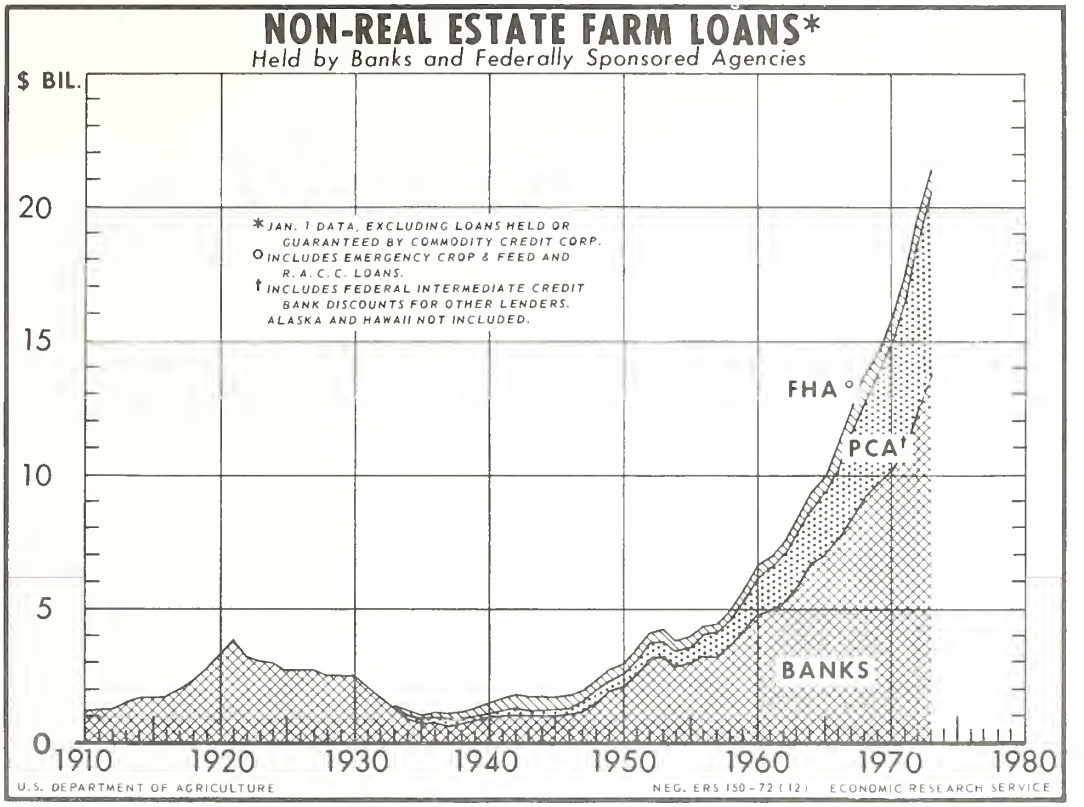


Figure 6

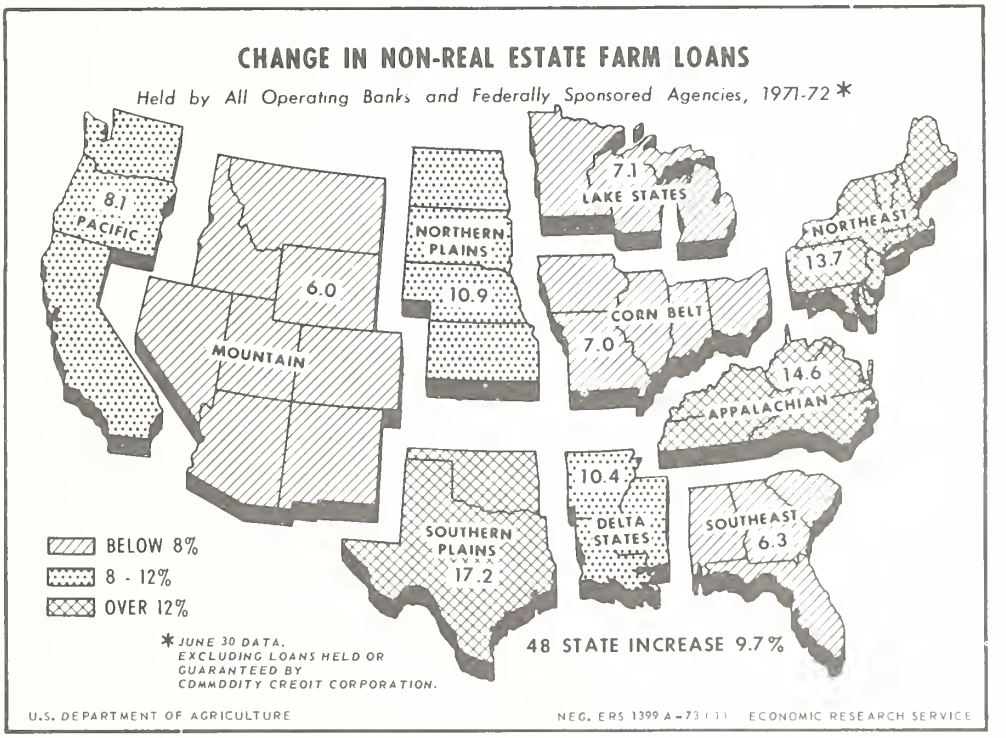


Figure 7

"Spending for family living purposes is up because the cost of consumer goods has increased, as a result of inflationary pressures, and also because the younger generation farmer is unwilling to do without worldly goods to the same extent as preceding generations."

Preliminary estimates indicate commercial banks increased 1972 holdings of non-real estate farm debt nearly 10 percent, a slightly larger increase than the 8.5 percent increase for PCA's. Farmers Home Administration loans outstanding January 1, 1973, were at about the same level as a year earlier. Direct loans from FHA will be rapidly phased out as the agency builds up its insured and guaranteed loan programs provided for in the Rural Development Act of 1972. Merchants, dealers, and other miscellaneous lenders continued to hold approximately 40 percent of short- and intermediate-term farm loans.

The following regional summaries are largely based upon reports made in late 1972 by correspondents mentioned in the acknowledgement on page 2.

NORTHEAST

	1971	1972	Change
	Million dollars	*Million dollars*	*Percent*
Cash receipts from farm marketings, total	3,791	3,862	1.9
Crops	1,202	1,153	-4.1
Livestock and livestock products	2,589	2,709	4.6
Market value of farm real estate, March 1	11,863	12,756	7.5
Farm real estate debt, Jan. 1	2,140	2,038	-4.8
Farm mortgage recordings, Jan.-June	201	281	39.8
Non-real estate farm loans held by banks, PCA's, FICB's and FHA, July 1	958	1,089	13.7

Outlook for 1973

Northeast farmers can look forward to improved net incomes from higher crop and livestock prices. The quality of the 1972 potato crop and price levels indicate a good return for potato growers.

For dairy farmers the growing milk production and prospects for slightly higher prices indicate an increase in cash receipts, but increased costs of feed and poorer quality of 1972 home-grown feed will be limiting factors in net income gains.

Off-farm employment opportunties, essential for many farmers in most of the Northeast region, appear to be as good as if not better than last year.

Loans generally will be readily available. However, many farmers may be faced with tight financial positions following a year of unfavorable returns and low repayments on operating loans. Correspondents indicated institutional lenders will be more restrictive in 1973 with this group of borrowers.

1972 Financial Conditions

The financial position of farmers in the Northeast at the end of 1972 generally was less favorable than a year earlier. The wet spring, hurricane Agnes, an early fall, and unfavorable harvesting weather all contributed to lower quality products. This was offset to some extent by higher prices for products. However, the destruction by Agnes resulted in large losses for many farmers who had to borrow to restore damaged and lost property and to acquire feed. Correspondents indicated that Pennsylvania farmers probably improved their financial positions due to larger 1972 net returns. However, Agnes did not spare eastern Pennsylvania where many farmers suffered heavy losses.

Aroostook County, Maine, is a brighter spot in the Northeast picture. Although the 1971 crop which was marketed in 1972 was less than a "break even" crop, a few farmers who still had good quality potatoes in storage benefited from a higher 1972 May and June price. Correspondents anticipate that producers will receive higher prices for the 1972 crop and will be able to recover some of the previous losses.

Although temporarily improved, Aroostook County continues to be a credit problem area. As summarized by a Farmers Home Administration correspondent:

> "Aroostook County farmers are still confronted with a heavy debt load which has resulted from a 5-year period of depressed potato prices. Delinquencies in this area continue to be high and the matured debts carried over from one year to the next are high. Unless the expected more favorable prices are received this year for potatoes there will be increased foreclosures. Other lenders are reluctant to extend credit to farmers because of the risk involved."

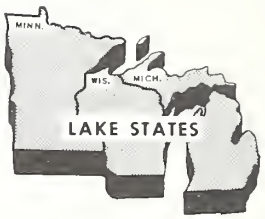
The Northeast dairy industry benefited from higher milk prices in 1972. However, increased feed costs cut into profit margins. The 1972 hay productioon was 14 percent less than in 1971. In addition, there was considerable loss in quality of home-produced feed such as silage and hay.

Correspondents said that on balance the financial reserves of farmers in the Northeast region were lower at the close of 1972 than a year earlier. Many farmers subsidized 1972 operations from past earnings and others borrowed additional funds.

Adequate funds were generally available from lenders throughout the Northeast region to satisfy farm loan demand. Reporters indicated repayments on debt were less than anticipated, but probably will increase in 1973.

LAKE STATES

	1971	1972	Change
	Million dollars	*Million dollars*	*Percent*
Cash receipts from farm marketings, total	4,920	5,328	8.3
Crops	1,527	1,550	1.5
Livestock and livestock products	3,393	3,778	11.3
Market value of farm real estate March 1	15,162	17,948	18.4
Farm real estate debt, Jan. 1	2,847	3,093	8.6
Farm mortgage recordings, Jan.-June	265	332	25.3
Non-real estate farm loans held by banks, PCA's, FICB's and FHA, July 1	1,966	2,105	7.1



Outlook for 1973

Gross farm income in 1973 will probably exceed the 1972 level. Costs will also increase, but correspondents say 1973 net incomes will advance. Approximately 70 percent of the income in the Lake States is from livestock and livestock products and reporters believe that livestock prices will remain favorable. Income from cash grain crops will probably also increase if the adverse weather conditions of 1972 are not repeated.

Loan funds will be readily available. However, some reporters indicate that lenders are requiring more collateral. This is related to the poor 1972 harvest and the large percentage of part-time farmers for whom farming is not their major interest.

Land values will probably continue upward in 1973 as more urban workers seek rural homes. However, reporters indicated some downward pressure on land values in those areas not influenced by urban demand. The 1971 dry season, followed by excessive rains and poor harvesting weather, discouraged potential buyers of farmland for agricultural production, although recent high farm product prices have provided some offset.

1972 Financial Conditions

The financial condition of most Lake State farmers at the close of 1972 was better than a year earlier due to the more favorable 1972 growing season. However, cash receipts from crop sales were up 1.5 percent and livestock receipts up 11.3 percent.

In Michigan the 1972 financial position of farmers was stronger due to a 20 percent increase in corn production and 18 percent increase in soybean production. The production of 7 major fruit crops was a little below 1971. Due to price increases of about 10 percent, gross income will probably be higher. Receipts of the tart cherry growers remained uncertain near year-end. The latest reports indicated a probable price of 8 cents per pound compared with 10 cents for 1971. One of the correspondents stated that without the new marketing order, the 1972 price would have been much lower. The 1972 crops of peaches, plums, prunes, and grapes were short but prices better.

In Minnestoa farmers were generally in a better financial position than in 1971 except for many farmers in the central third of the State. In this area crops sustained considerable weather damage and net income was further lowered by increased harvesting and drying costs. Net income of livestock producers was also lowered by higher feed costs.

Excessive rainfall in many sections of Wisconsin reduced production of corn, small grains, hay, and cash crops. In such areas there were extra expenses coupled with reduced income. The full effect of this will be more pronounced in early 1973 as more feed is purchased. Nonfarm employment in Wisconsin was

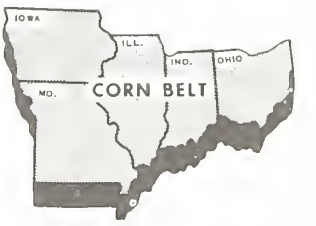
more difficult to obtain. Thus, farmers' financial reserves were down slightly from the beginning of 1972.

Land values in the Lake States moved upward during 1972. As of March 1, the per acre increase from a year earlier were—Michigan $10, Wisconsin $8, and Minnesota $5. Correspondents indicated the upward trend continued throughout 1972. There was demand for land primarily from part-time farmers and expansion requirements of existing farmers.

Credit was generally available throughout 1972. However, reporters indicated that loans in Michigan and Minnesota were more difficult to obtain in the last half of the year. This was probably related to lender analysis of the ability of borrowers to repay rather than to availability of funds.

CORN BELT

	1971	1972	Change
	Million dollars	*Million dollars*	*Percent*
Cash receipts from farm marketings, total	11,581	12,973	12.0
Crops	5,028	5,328	6.0
Livestock	6,553	7,645	16.7
Market value of farm real estate, March 1	49,779	52,142	4.7
Farm real estate debt, Jan. 1	5,735	5,994	4.5
Farm mortgage recordings, Jan.-June	762	1,033	35.6
Non-real estate farm loans held by banks, PCA's, FICB's, and FHA, July 1	4,242	4,541	7.0



Outlook for 1973

Net farm income for the Corn Belt in 1973 should equal if not exceed that for 1972 according to reporters. The 1973 total income will be bolstered some by the delay in harvesting the 1972 crop of corn and soybeans. Also, damage caused by unfavorable harvesting weather in 1972 will be partially offset by increased grain prices. However, 1973 production may be affected by delayed spring planting. In many Corn Belt areas, normal fall plowing was impossible. This will increase the volume of spring work and may delay planting of corn and soybeans. Of course, Government program efforts to encourage corn and soybean production will affect 1973 returns.

Correspondents generally believe that farm costs in 1973 will exceed 1972 levels. Mentioned most frequently were increased prices for farm machinery, labor, and seed. These increased costs will offset some of the anticipated increases of gross income.

Reporters generally believe that demand for loans will increase. Farmers in many areas, particularly in the Northern fringe of the Corn Belt, may have to borrow funds to meet obligations which normally would be handled from receipts for fall marketings of grain which were delayed. None of the reporters indicated inadequate funds to finance the projected increase in loan demand. Lenders generally believe interest rates on long-term loans will remain at late 1972 levels due to the adequate supply of loan funds. However, short and intermediate rates may be slightly higher.

The outlook for 1973 Corn Belt land prices was summarized by one reporter as follows:

> "Farmland prices probably will continue to increase especially if credit is available and major farm prices remain relatively high. Nonfarm factors which put upward pressure on farmland prices include land demanded for:
>
> (a) residential, business, highway, airport, and similar uses around urban growth centers.
>
> (b) rural nonfarm residences made more desirable by increased availability of rural water and waste disposal systems, and other conveniences.
>
> (c) an increasing population competing for the mixed supply of this vital (but non-reproducible) resource.
>
> (d) hedge against inflation.

1972 Financial Conditions

Most Corn Belt farmers closed 1972 in better financial position than a year earlier. However, many farmers faced uncertainty as the unfavorable weather for harvest prevailed. Correspondents indicated that more than the usual amount of returns from corn and soybeans in large areas of the Corn Belt would be shifted into 1973. In addition to the loss

of 1972 sales, the unfavorable weather resulted in increased drying costs, further decreasing net income. A shortage of fuel for grain drying added to the problem of these farmers.

Cash receipts from farm marketings in total were 12 percent higher than for 1971. This was due largely to increased livestock receipts, up 17 percent. Crop receipts increased 6 percent, associated with increased corn yields and the upsurge in grain prices late in the year.

The most significant factors in the increased livestock receipts were improved prices for cattle, hogs, and milk. Choice steer prices at Omaha averaged $35.80 per 100 pounds for 1972 compared with $32.40 a year earlier. The average hog price at 7 Midwest markets was $26.75 for 1972 compared with $18.45 a year earlier. The average December 1972 milk price for the 5 Corn Belt States was $6.45 per 100 pounds compared with a December 1971 price of $6.04.

Correspondents indicated increased farm production costs throughtout the Corn Belt. The amount of increase varied from 4 percent to 10 percent. A major factor was the high cost of machinery as farmers changed to larger machines, particularly harvesting and drying equipment. The 1972 improved farm purchasing power and a desire for earlier harvests influenced the increased purchase of machinery. Correspondents indicated the income tax investment credit was a factor.

Correspondents were unanimous in reporting increased prices for farm real estate as well as an increase in the number of land transfers. A strong factor in the price picture appeared to be urban expansion. This has a strong ripple influence as farmers selling land near urban centers seek new farms a little further out. The higher land prices in these transactions influence other transactions still further out. A second factor frequently referred to was the demand by farmers to enlarge existing units to more economically utilize the larger machines. A third major factor in 1972 land price increases was the ample supply of loan funds. Without exception, correspondents stated that loan funds were ample and more readily available in 1972 than in 1971.

Reporters indicated the total debt of Corn Belt farmers increased during the year in spite of the higher farm income. There was increased investment in machinery, farm buildings, and land.

Many correspondents indicated the financial position of farmers changed little during the year. In Illinois, for example, 38 percent of the correspondents felt the financial conditions remained about the same as 1971. However, 59 percent indicated improvement. Only 3 percent believed overall financial conditions had declined. Due to the unfavorable harvesting conditions in the Corn Belt, particularly the northern portion, the financial position of farmers at the close of year varied more than usual.

APPALACHIAN

	1971	1972	Change
	Million dollars	*Million dollars*	*Percent*
Cash receipts from farm marketings, total	3,944	4,415	11.9
Crops	1,953	2,198	12.5
Livestock and livestock products	1,991	2,217	11.4
Market value of farm real estate, March 1	17,083	18,648	9.2
Farm real estate debt, Jan. 1	2,034	2,238	10.0
Farm mortgage recordings, Jan.-June	406	518	27.6
Non-real estate farm loans held by banks, PCA's, FICB's and FHA, July 1	1,356	1,554	14.6

Outlook for 1973

Most farmers in the Appalachian region are expected to show some improvement in cash receipts from farming during 1973. However, costs related to farming will rise about the same as receipts, so net farm income will likely remain near the 1972 level. Farmers' overall financial condition is expected to remain close to 1972's as increases in debts almost equal gains in assets values.

The demand for loans will remain strong. Several lenders reported a tendency for some farmers to consolidate short-term debts into long-term loans. No fears of a credit crunch for farmers were expressed. In fact, reports were almost unanimous that adequate funds would be available in all but exceptional cases.

Interest rates will move slightly above 1972 levels. Longterm rates are expected to average about half a percentage point above short-term rates in most areas. Substantial changes in the national economy could alter the situation somewhat, however.

Use of more purchased inputs, expenditures for additional and higher priced machinery, purchases of land for expansion, a moderately higher cost of living, and ample loan funds of lenders are the main underlying causes of expected increases in credit use. For certain crops, such as flue-cured tobacco and fresh vegetables, expenditures are likely to be heavy for specialized machines to reduce hand labor now needed for harvesting. Prices for farmland are expected to continue their upward trend with the sharpest rises being in or near developing centers.

1972 Financial Conditions

Higher net farm income generally and easier credit at slightly lower interest rates than in previous 2 or 3 years resulted in an improved financial condition for most Appalachian farmers at the end of 1972. Prices for cattle and calves, hogs, and milk were up and most crop prices were higher. The main exception was cotton, an important income source in large areas of North Carolina and Tennessee.

The breadth of the Appalachian region which extends from the Atlantic seaboard across the mountains to the Mississippi River and the diversity of farm enterprises make it difficult to analyze in general terms. Many farms are small and opportunities for off-farm employment are such that nonfarm income is looked upon as the main source of farm family income in many parts of the region. Other farms are truly commercial and often extensive in size and production. Reporters were practically unanimous in their opinion that well-managed farms were in sound financial condition with optimism enough to continue investing in machinery, land, and other needed capital improvements. They admitted, however, that there were still too many small and inefficient farms that provided little more than a subsistence level of living. Older persons caught in those circumstances were quitting farming, selling out when they could, or otherwise retiring on Social Security benefits. Many younger people in such predicaments were rapidly seeking better opportunities elsewhere.

The easier credit situation in 1972 allowed many farmers to make machinery purchases that had been deferred for several years. Purchases of tractors reportedly were up substantially over recent years. Larger pieces of machinery were replacing those worn out or obsolete. In the flue-cured tobacco areas of North Carolina and Virginia, interest in and expenditures for tobacco harvesters increased substantially. Saving on labor costs was the most common reason given for machinery purchases. However, as stated by a lender covering a large part of the region, "No doubt a good part of the increase in capital expenditures in 1972 can be attributed to the lower cost and generally increased availability of credit."

Several reporters stated that much of the increased farm income was used to improve homes and living conditions rather than kept as cash savings. Farmers' debt position was somewhat higher but the value of owned assets went up more.

Some areas mostly in Virginia were plagued by floods in the summer and early fall and suffered extensive damage to crops and buildings. The persistence of the disasters made it impossible for many of those affected to recover by year-end. The Small Business Administration and other Government agencies provided some relief. Local banks, PCA's and FLB's also responded by providing loans for disaster victims.

Appalachian region farmers used credit in record amounts. Reporting lenders knew of only a few isolated cases where the credit supply seemed to be inadequate. Banks increased short- and intermediate term farm lending at the fastest rate in several years, outstripping the rate of increase of PCA's. The Farmers Home Administration was again unable to keep up with demand.

Interest rates on loans in the region ranged between 6½ and 8½ percent with most short- and intermediate-term loans being made at rates between 7 and 7½ percent and long-term loans from ¼ to ½ percentage point higher.

SOUTHEAST

	1971	1972	Change
	Million dollars	*Million dollars*	*Percent*
Cash receipts from farm marketings, total	3,958	4,351	9.9
Crops	2,141	2,322	8.5
Livestock and livestock products	1,817	2,029	11.7
Market value of farm real estate, March 1	14,674	15,746	7.3
Farm real estate debt, Jan. 1	2,150	2,355	9.5
Farm mortgage recordings, Jan.-June	339	466	37.5
Non-real estate farm loans held by banks, PCA's, FICB's and FHA, July 1	1,042	1,108	6.3

Outlook for 1973

Most Southeast farmers can expect 1973 gross income to equal or slightly exceed that of 1972, according to survey reporters. Debts were expected to increase somewhat faster than asset values, but their financial condition should hold close to 1972 levels. Investments in capital improvements and larger machinery will reflect the higher 1972 farm income and expectations for a continuation this year.

Crop farmers are looking forward to favorable prices for tobacco, soybeans, citrus, and small grains. The drop in cotton acreage allotments will reduce cotton production.

Livestock producers may continue receiving relatively high prices for cattle, especially feeder calves. Hog producers may not fare quite as well as in 1972. An increase in production, with lower prices, is likely after midyear. Milk producers reportedly expect a continuation of good returns. Broiler and egg producers may not fare much better than last year and many marginal producers will likely be forced to cease operations.

The need for credit will remain strong due to purchases of machinery, land for expansion, and for operating purposes. Loans will be available for creditworthy farmers from usual sources in all except a few isolated cases. Most lender reporters expect interest rates to be about the same as in 1972, with any movement being slightly upward.

1972 Financial Conditions

The financial condition of most farmers in the Southeast was reported as being moderately improved at the end of 1972, compared with a year earlier. Debts generally were higher but so were asset values. Net farm income of the region was higher. Several lenders reported some farmers chose to use the extra income to prepay debts and stop high interest costs rather than place the cash in savings accounts or other liquid assets. Several reporters thought cash savings of farmers were slightly less. Although net farm income rose, the higher cost of living ate up much of the gain.

Income from off-farm sources continued to be an increasingly important factor in the well-being of farmers in the Southeast, particularly operators of small farms. Industrialization and development throughout the region provided much better opportunities for off-farm income in the Southeast than in many other regions.

Machinery purchases were up substantially from the last several years as many farmers completed purchases they had deferred the last year or so because of high interest rates.

Transfer of farmland was reportedly most prevalent around developing centers where prices for the land for nonfarm uses were much higher than farming could support. Reporters mentioned that farmland being sold for farming purposes was somewhat higher in price.

Farm loans were generally available to carry on farming. As one region-wide lender put it, "It is our opinion that most farmers who had a basis for credit in 1972 had adequate credit available to them. Some farmers who were in weak financial condition or who had over extended themselves encountered, as usual, some difficulty in financing." Interest rates ranged mostly 7 to 8 percent for operating loans and 7½ to 8½ percent for farm mortgage loans.

Although the Farm Credit Act of 1971 authorized generally more liberal lending activities by Federal land banks and production credit associations, they reportedly may not have reached their full potential since much of 1972 was spent in formulating and implementing new procedures.

Demand for Farmers Home Administration loans again exceeded their lending authority. They reported a continuous trend of smaller farmers

retiring on Social Security benefits or obtaining employment in nonfarm jobs.

There seemed to be general concern among reporters that more farmers, regardless of the size of operation, were becoming more heavily indebted, based on what appeared to be inflated asset values. Some expressed apprehension about the consequences if gains in asset values slowed or ceased, or if several consecutive years of low income occurred.

DELTA STATES

	1971	1972	Change
	Million dollars	*Million dollars*	*Percent*
Cash receipts from farm marketings, total	2,954	3,315	12.2
Crops	1,568	1,774	13.1
Livestock and livestock products	1,386	1,541	11.2
Market value of farm real estate, March 1	2,760	2,990	8.3
Farm real estate debt, Jan. 1	1,767	1,881	6.4
Farm mortgage recordings, Jan.-June	287	341	18.8
Non-real estate farm loans held by banks, PCA's, FICB's and FHA, July 1	952	1,051	10.4

Outlook for 1973

Gross farm income in the Delta States will probably come close to matching the unusually high figure for 1972. Except in unusual cases, funds for farm loans will be adequate with interest rates later in the year trending higher than those charged in 1972.

Crop acreages could show some shifts as producers plan resource use to best advantage. Some cotton acreage will likely go into soybeans. Rice acreage will increase by 10 percent based on the greater allotments for 1973.

Expectations of a good year ahead for beef prices will keep up the pressure for expansion of cattle herds. Higher feed costs will likely keep increases in hog production to moderate levels. Broiler production will likely show some expansion, again dependent on only moderate rises in feed costs.

Farm costs will reflect upward pressures from several angles. Banning of DDT reportedly causes extra expenses for substitute pesticides, especially on cotton. Wage rates will likely go higher. Those looking for substitutes for labor will find machinery prices higher than a year earlier.

Most farmers will find adequate credit from conventional sources. As of late 1972 reporting lenders foresaw no credit crunch for farmers. Interest rates on short- and intermediate-term loans could rise about ½ percentage point by summer. Long-term loan rates will probably increase about ¼ percentage point.

1972 Financial Conditions

Most Delta farmers are in better financial condition than a year earlier. Higher cash receipts in 1972 allowed many to retire 1971 carryover debts as well as 1972 obligations. Exceptions were those hurt by unfavorable weather during the harvesting season. Arkansas and Mississippi growers were hit more severely than Louisiana farmers.

Cotton acreage harvested increased by one-fourth. High yields of good quality were in prospect until droughts hit some areas in Mississippi, late in the growing season and heavy fall rains severely hampered harvesting in Mississippi and Arkansas. However, production was up one-fifth over 1971. Cash receipts from cotton were lower than expected due to lower quality and prices. Usually nearly two-thirds of the cotton in the Delta is sold on contract early in the season. Because of bad weather, much cotton sold on contracts at grades carrying a price of 28 to 30 cents per pound reportedly could not be delivered by farmers, thereby voiding the contracts, and forcing farmers to settle for a much lower price.

Soybean growers had slightly lower acreage, yields, and production than in 1971, but prices were much higher, especially late in the season. As with cotton, however, total receipts from soybeans might have been higher except for losses incurred from heavy fall rains which hampered harvesting.

Rice acreage and yields were near year-earlier levels. Cash receipts from rice were above average due to the highest prices in a decade.

Louisiana sugarcane growers received record prices for production from acreages a little above 1971 and yields up one-fourth.

Livestock farmers benefited from higher prices for hogs and feeder cattle, although feed costs also rose. Broiler producers, mostly in Arkansas, combined 10 to 12 percent larger production with prices no less than in 1971 and came up with improved income.

Investment in machinery and land was substantial during 1972. Everywhere the shift to larger power units was evident to reporters. As the year progressed toward harvest, optimism was reportedly high. Machinery sales were good. Land transfers were mostly for farm enlargement with the most substantial increases in prices being near developing centers.

Farmers substantially increased their use of credit during 1972. The use of more purchased inputs at higher prices and investments in machinery and land kept demand for loans high. Interest rates were lower than a couple years earlier by 1 to 1½ percentage points. Except in relatively few cases loan funds were adequate from the usual sources.

SOUTHERN PLAINS

	1971	1972	Change
	Million dollars	*Million dollars*	*Percent*
Cash receipts from farm marketings, total	4,381	5,087	16.1
Crops	1,401	1,737	24.0
Livestock and livestock products	2,980	3,350	12.4
Market value of farm real estate, March 1	28,492	31,200	9.5
Farm real estate debt, Jan. 1	2,679	2,861	6.8
Farm mortgage recordings, Jan.-June	334	461	38.0
Non-real estate farm loans held by banks, PCA's, FICB's and FHA, July 1	2,036	2,387	17.2

Outlook for 1973

The debt and financial position of farmers and ranchers in the Southern Plains is expected to remain at the good levels of 1972 in 1973 and possibly show a moderate improvement, depending mainly on market conditions. Prospects of income are favorable with adequate soil moisture in most places and relatively high grain and livestock prices. Some feeling emerged from the survey, however, that gross income might be a little lower unless record yields are achieved. Also, production costs were expected to rise substantially.

Apparently, most crop producers have their 1973 plans made but there is some uncertainty in Oklahoma as to stocker cattle. Placement of stockers in late 1972 was off significantly because cold wet weather delayed planting of wheat and development of wheat pasture.

Demand for credit will continue at a brisk pace. Some reporters did not want to speculate on future interest rates, indicating Government action would be an important factor. Those expressing opinions expected rates to feel some upward pressure in the middle of 1973, especially for short-term credit. The supply of funds will be adequate for sound loans. No unusual repayment difficulties are anticipated, although debts of many operators will increase. Equities should continue to rise. Land prices will go up further, particularly in areas affected by population pressures.

1972 Financial Conditions

Income conditions in Texas and Oklahoma in 1972 were mixed but generally better than in 1971. Weather was good for production except for drought in northeast Texas and in large sections of Oklahoma during the first quarter of the year. Wet weather in late fall hampered harvests of sorghum and cotton in sections of both States. Prices of most commodities were up in 1972, especially livestock prices. Cotton brought disappointing prices, although high yields were an offsetting factor in some areas. Production costs rose but not as fast as income.

Spending for new machinery has increased somewhat and the trend toward larger equipment was also noted by the reporters, but the increase in expenditures did not appear to be as large as in several other regions. One major cause of the limited capital expenditures is the relatively large debt that has been

built up over the past several years when many sections have suffered from drought, floods, and other hazards. Some livestock operators in Oklahoma were still trying to replace basic cow herds they had to liquidate in the 1971 drought. It was mentioned, however, that cattle feeding was expanding and that several new feedlots were under construction in Texas.

Despite some past income problems, spending for family and personal purposes was generally up. In eastern Oklahoma it was reported that industry and nonfarm people were moving in and more attention was being paid to maintenance of service buildings and the construction of new homes. Improved incomes, farm enlargement, ample loan funds, and urban sprawl have caused a continued increase in land prices. Opinions as to change in land sales activity were mixed, with some indication that the market was more active in the eastern part of the region than in the western part.

Demand for credit was strong, particularly for short- and intermediate-term credit. Availability of loans from most lenders was improved, with large commercial banks reportedly showing a substantial increase in loan activity. Delinquencies on current loans were few, and many farmers reduced or paid in full their loans carried over from earlier years. Renewals of short-term loans frequently occurred for operators showing improvement but who were in need of working capital. Some use of farm mortgage credit for operating capital also was reported.

The overall financial and debt situation of Southern Plains farmers and ranches improved in 1972. The savings and reserve position of some increased, but the improved fianancial situation was more usually in the form of higher equities through the reduction of debts or expansion of assets. Conditions appeared to be somewhat better in Texas than in Oklahoma. One Oklahoma reporter said the 1972 financial picture was improved, "not because this year was so great but because last year was so miserable."

NORTHERN PLAINS

	1971	1972	Change
	Million dollars	*Million dollars*	*Percent*
Cash receipts from farm marketings, total	6,467	7,340	13.5
Crops	2,285	2,494	9.1
Livestock and livestock products	4,182	4,846	15.9
Market value of farm real estate, March 1	23,316	24,021	3.0
Farm real estate debt, Jan. 1	2,545	2,723	7.0
Farm mortgage recordings, Jan.-June	250	310	24.0
Non-real estate farm loans held by banks, PCA's, FICB's and FHA, July 1	3,006	3,334	10.9

Outlook for 1973

The outlook for 1973 for Northern Plains farmers is generally optimistic. Soil moisture is adequate in most areas and prospects are for an excellent winter wheat crop. Hay and pasture expectations are good through the spring of 1973. Winter feed is in ample supply and cattle are in good condition. Good grain prices are expected to hold well into 1973 and livestock prices are currently strong.

Despite the optimistic mood, many reporters doubted that incomes would exceed the high 1972 levels and might be slightly lower. There was considerable agreement that current high costs of buying and feeding cattle could place some cattle feeders in trouble if fat cattle prices declined substantially. There was also some feeling that a higher rate of inflation in 1973 might cause a spurt in taxes, labor, machinery, and other production costs.

A further rise in use of credit was generally expected for 1973. The supply of loan funds will probably be adequate. Several reporters thought short-term interest rates might rise slightly during the year but that farm mortgage rates would remain at about current levels. Debt may show a moderate expansion, but the financial position of farmers as a whole will likely remain good.

1972 Financial Conditions

Reports from the Northern Plains were quite uniform in indicating that economic conditions were

generally better than in 1971. Despite a wet spring in some areas that slowed plantings, the yields of wheat, other small grains, corn, and soybeans were good. Prices for crops were better than in 1971, and prices for livestock were the best in many years. Both gross and net farm incomes were up substantially.

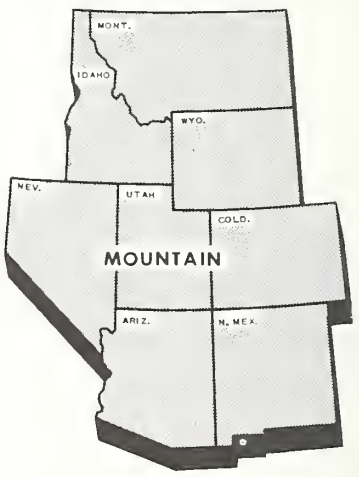
Concern was voiced about the excess moisture in the fall that delayed harvest, reduced yields, and increased grain-dying costs for some farmers, but the seriousness apparently was not extensive. Wheat producers who sold their crop too early to benefit fully from the jump in grain prices were reported to be unhappy. Other concerns expressed were over the very high prices paid for feeder cattle and the eventual profitability of fat cattle sales. Credit for purchase of feeder cattle appeared to be plentiful, but was tighter for stock cow herds.

Prices for goods used in production were moderately higher and there were extra costs such as for additional grain storage. Farmers were generally optimistic and increased their spending for both farm and family purposes. Demand for land to expand operations was heavy and prices rose further. Demand also increased for both new and used machinery and equipment. New purchases tended to the larger sizes. New tractors according to a North Dakota report were most all 100 horsepower and over, ranging up to 300 horsepower. Many were 4-wheel drive units. There were indications that families were upgrading their home furnishings and some were spending for boats, campers, and travel.

The higher spending brought an increased demand for credit which was in adequate supply. Few comments were made about interest rates, which were slightly lower than in 1971. Although debt for individual farmers often expanded, their financial condition and equities usually improved because of larger operations and assets. Repayments of debts were on schedule in most instances and foreclosures and delinquencies were low. Some strengthening in savings and reserves was reported, but farmers probably invested the bulk of the improved incomes in the farm business or used it to improve family living.

MOUNTAIN REGION

	1971	1972	Change
	Million dollars	*Million dollars*	*Percent*
Cash receipts from farm marketings, total	4,480	4,974	11.0
Crops	1,415	1,493	5.5
Livestock and livestock products	3,065	3,481	13.6
Market value of farm real estate, March 1	17,796	18,993	6.7
Farm real estate debt, Jan. 1	2,744	2,989	8.9
Farm mortgage recordings, Jan.-June	345	440	27.5
Non-real estate farm loans held by banks, PCA's, FICB's and FHA, July 1	2,137	2,265	6.0



Outlook for 1973

Most reporters believed that 1973 would be another good year for farmers and ranchers in the region, perhaps even better than 1972. Costs will undoubtedly rise further, but there is much optimism with respect to both potential production and prices. Moisture conditions have improved over last year and fall seeded wheat has gone into winter in good condition with prospects of a record crop in many areas. Grass should be good, and supplies of irrigation water are reported plentiful. The upturn in grain prices has generated enthusiasm in wheat production and some feel the high prices for feeder cattle will continue well into 1973.

Some farmers in areas that had drought or harvest problems in 1972 are in a poorer financial situation, but these are overshadowed by the good conditions in the region as a whole. The profitability of cattle feeding operations seems to be of wider concern. Both feed and feeder cattle are high priced. Good returns for fat cattle will be needed for such operations to pay out.

The demand for loans is expected to be strong in 1973 and lending funds should be ample. Policies of lenders will continue much the same as in 1972. Interest rates will remain firm and perhaps increase during the year. Several reporters commented that prices of farmland would probably rise substantially, especially for land usable for recreation and subdivision development.

With good income prospects and the probability of higher asset values, the 1973 financial outlook is favorable.

1972 Financial Conditions

Conditions vary considerably in this broad region, but, on the whole, the financial position of farmers and ranchers in 1972 improved over 1971. This was largely due to high prices received for all classes of cattle. Higher prices were also received for most crops and yields were good except in a few areas. Although production costs rose, receipts were large enough to result in an improved net income. Price controls are believed by reporters to have dampened the increase in costs.

Sections of the region that were hurt by drought included about 10 counties in north central Montana, southwestern Colorado, southern Utah, northern Idaho and parts of New Mexico. A few areas reported late spring freezes that cut fruit production and several were troubled by fall rains or snows that delayed harvests. These difficulties were not widespread, however. In the main, growing conditions were above average; most States indicated that the supply of water for irrigation was much improved over recent years. The income situation of sheepmen continues relatively unfavorable.

There was considerable activity in machinery replacement. A typical comment was "with continued farm expansion and fewer good, inexpensive farm workers, farmers bought larger and better machines than the ones that were replaced." Land prices were strong, especially around the fringes of urban areas. Feeder cattle and livestock for breeding were reported to have been very costly. Spending for family living continued to increase, reflecting improved incomes, inflated prices, and a desire to keep up with townspeople.

Demand for credit was strong, but generally readily met by lenders at interest rates somewhat lower than in 1971. Difficulty in getting needed credit may be most pronounced in feeder cattle enterprises and in the purchases of beef cattle breeding stock. Debt repayments have been good with some farmers settling delinquencies carried over from earlier years. In a few localities, such as drought areas of southern Colorado, some current delinquencies were reported and appeared to be most serious for the marginal operators and those with heavy short-term maturities. Foreclosures have been rare.

The indebtedness of most farm families continues to increase, but their financial condition is generally good. Property is being well-maintained and values are rising. The savings and reserves of some have improved. Bankers have reported increased activity of farmers in putting money in savings accounts and certificates of deposits, although much of this may be from retired farmers who have sold out. The trend of small farmers moving out of farming apparently continues as they find it more difficult to compete economically.

PACIFIC

	1971	1972	Change
	Million dollars	*Million dollars*	*Percent*
Cash receipts from farm marketings, total	6,361	6,678	5.0
Crops	3,911	4,005	2.4
Livestock and livestock products	2,450	2,673	9.1
Market value of farm real estate, March 1	23,425	24,594	5.0
Farm real estate debt, Jan. 1	4,866	5,162	6.1
Farm mortgage recordings, Jan.-June	260	394	51.5
Non-real estate farm loans held by banks, PCA's, FICB's and FHA, July 1	1,882	2,034	8.1

Outlook for 1973

The consensus among our reporters is for another strong year financially for farmers and ranchers in the Pacific region. Production and prices for the region's commodities are expected to be good. However, production costs may rise more than in 1972 and some uncertainties exist, such as the outcome of egg producers suffering losses from the Exotic Newcastle disease and the recent freeze damage to fruit and nut trees in California. The export demand for cotton and the extent of any drop in livestock prices were also reported as important unknowns.

Debt and credit conditions, despite some exceptions, are expected to continue in 1973 much the same as in late 1972. Although interest rates may rise a bit, credit will be adequate and farmers will use relatively large amounts. Increased purchases of farm machinery, high farm market values, and rising production costs will account for much of this. Barring unexpected price or production difficulties, few problems in handling the higher debt are foreseen. One reporter indicated farmers are cautiously optimistic. Few are likely to make investments and undertake long-term debts that require a continuation of the exceptionally good incomes of 1972.

1972 Financial Conitions

Despite the diversity of farming in the Pacific Region, incomes and the financial position of farmers were generally improved in 1972. Higher incomes more than offset a rise in production costs. Both prices and production were as good as, or better than, 1971 except for some commodities in a few areas.

Conditions in Washington and Oregon were reported the best in several years. Dairy income was definitely up and irrigated areas showed generally good improvement. Because of the late wheat harvest, growers received the higher prices occurring after the Russian grain sale. Reports from California indicated some damage from both drought and frosts, and egg production was low in the southern part of the State because of the outbreak of the Exotic Newcastle disease. Despite these difficulties, net income was believed to be generally higher for the year.

An important result of the improved financial conditions and favorable outlook was a step-up in farm machinery purchases. Controlled prices of equipment and the reinstatement of the investment tax credit were also believed to contribute. As in other regions, farmers were reported to be buying larger capacity machines and the demand was also strong for used equipment. One report from the Palouse area said that the upsurge in wheat prices brought orders for new combines for 1973 delivery. In California, it was commented that machinery dealers and manufacturers were extending much credit and were also increasing their rental and leasing plans.

Although information on family living is limited, most reporters believed that it had improved. Some families were making purchases of household equipment that had been postponed for a number of years. Off-farm income continued in most areas at a high level and contributed to better living. Buildings were being well-maintained but, except for farm machinery, relatively few farmers reported any great increase in capital spending.

Land prices strengthened and activity increased, although several reports suggested that sales were slow. One California reporter said farm consolidations were continuing, but at a reduced pace. Ranch sales apparently picked up because of strong livestock prices and ample credit.

Demand for credit was strong, especially to finance livestock and machinery purchases. Lenders had an adequate supply of funds and interest rates were slightly lower than in 1971. Despite some rise in debt, the debt situation of farmers was good. Delinquencies were low and carryover of matured loans was less than for 1971. An increase in bank deposits occurred and some strengthening in savings of farmers was reported. Considerable mention was made of the millions of laying hens destroyed in California because of the widespread Exotic Newcastle disease, but indemnities paid such producers have lessened the financial impact.

ALASKA

	1971	1972	Change
	Million dollars	*Million dollars*	*Percent*[1]
Cash receipts from farm marketing, total	4.5	4.4	-2.3
Crops	1.5	1.5	0.0
Livestock and livestock products	3.0	2.9	-3.5
Farm real estate loans held by reporting lenders, Jan. 1	2.6	3.3	27.4
Non-real estate farm loans held by banks, PCA's, and FHA, July 1	2.3	3.0	32.1

[1] Calculated from unrounded data.

ALASKA

Outlook for 1973

The financial condition of Alaskan farmers in 1973 is expected to remain at about the late 1972 level, which was improved over the year earlier. Both income and costs will likely be higher, with net income about the same. Market prices will be good for all products. Good 1972 production of hay and silage will cut down initially on feed purchases.

Loans for established farmers will be available at interest rates similar to those of the last 2 years. Farmland for expansion purposes and for new farmers will be higher priced. According to reporters, not much land changes hands, but for that which does the influence of speculator's money pushes prices out of reach of the farmer in business for a living.

1972 Financial Developments

Alaskan farmers in general had slightly lower cash receipts from farming in 1972. Costs were slightly higher, leaving no improvement in total net farm income. However, some correspondents reported that a number of farmers increased farm cash receipts and had higher net farm income.

Credit was reportedly ample for farmers with proven abilities; interest rates were about the same as a year earlier.

Several reporters stated that the declining trend in the number of farmers appeared to be tapering off. Still, some farm landowners were selling off their farmland at what seemed like inflated prices.

Milk production, the most important agricultural enterprise, exceeded that of 1971 but did not match the volume produced in 1970. Most Alaskan farmland is used to produce forage, hay, and feed grains. The main row crop is potatoes.

HAWAII

	1971	1972	Change
	Million dollars	*Million dollars*	*Percent*
Cash receipts from farm marketings, total	220.7	222.6	0.9
Crops	177.6	177.3	-0.2
Livestock and livestock products	43.1	45.3	5.1
Farm real estate debt, Jan. 1	23.0	22.8	-0.9
Farm mortgage recordings, Jan.-June	1.2	1.3	8.3
Non-real estate farm loans held by banks, PCA's, FICB's and FHA, July 1	11.7	11.4	-2.6

HAWAII

Outlook for 1973

The outlook for Hawaii is much the same as for agriculture as a whole on the mainland. Income is expected to show a slight to moderate gain with production costs rising further. The general debt and financial situation of farmers will remain substantially the same, but equities and farm values should be higher. Levels of spending and investment will probably increase and expand the demand for farm loans. There was some feeling that the money market might tighten in 1973 with less credit available at strengthening rates of interest.

1972 Financial Conditions

The financial situation of Hawaiian farmers appeared to be slightly stronger in 1972. Both incomes and costs rose during the year. Purchases of machinery, equipment, and other capital goods were reported to have remained fairly stable, but spending for family living was up. No significant change in savings and reserves of farmers was noted but loan repayment improved and delinquencies decreased somewhat.

Demand for credit increased and some lessening in the availability of loans was reported because of tightening of the money supply. Sales activity of farmland was believed not to have increased but inflation, speculation, and urban encroachment brought higher values.

Outlook for 1973

The financial situation of farm families may improve somewhat further in 1973, but it is expected to be weak compared with the situation of families with nonfarm income. The manufacturing and construction sectors are showing steady growth and the movement continues out of farming to the better job opportunities in metropolitan areas. However, both the Federal and local governments provide incentives and subsidies to farmers. Also, there are plans to improve the economic and living conditions of rural families by bringing more public facilities and services to rural areas.

1972 Financial Conditions

Farmers with off-farm income continue to improve their financial condition. The overall fianancial situation of farmers depending solely on farm income in Puerto Rico was reported to be little different from 1971 but much better than 2 or 3 years ago. Sugar and coffee output was down in 1972. The percentage of sugarcane sucrose content declined further and the production of coffee was down significantly because of drought and a shortage of labor. Tobacco growers, whose income rose, showed a stronger financial position. The value of other crops, including fruits and ornamentals, also increased as did production of livestock and poultry products.

Shortage of farm labor and the high labor cost resulting from a growing industrial economy are important problems for producers of cash crops. Mechanization, and new farming practices necessary to cope with this situation, require a considerable outlay of capital which few small farmers can afford. Governmental incentives and subsidies rose during the year with most of the increase going for farm wage supplements and rehabilitation of the sugarcane industry.

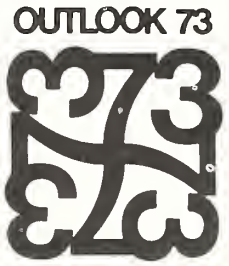
Lenders continue to be quite selective in approving loan applications but the supply of credit is adequate for farmers with substantial equities in their properties. The limited profits of sugarcane and coffee producers have caused some increase in loan delinquencies, although governmental subsidies have provided some relief. The unfavorable outlook for many small farmers has resulted in a declining demand for farm development and production loans from the Farmers Home Administration. FHA rural housing loans extended to farmers and rural residents, however, reached an alltime high.

OUTLOOK CONFERENCE SCHEDULED FOR FEB. 20-22, 1973

The 1973 National Agricultural Outlook Conference has been set for Feb. 20 through 22, at the U.S. Department of Agriculture in Washington, D.C.

Central theme of the Conference will be "The Future Structure of Agricultural Production and Marketing." Such topics as the long-range expansion of demand for agricultural products, input requirements of the food industry, significant trends in organization and control of the food and fiber sector of the economy, impact of environmental developments on agricultural production and marketing, and future developments in the export market will be explored in depth.

The 1973 outlook for U.S. agriculture and the general economy will receive particular attention at the Conference. Sessions on the 1973 outlook for major commodities and rural family living will make up an important part of the Conference as usual. The Conference, sponsored by USDA's Economic Research Service and Extension Service, will feature presentations and panel discussions by leading authorities in agriculture and business.



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